

ORDER NO. 4020

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;
Mark Acton, Vice Chairman;
Tony Hammond; and
Nanci E. Langley

Competitive Product Prices
Priority Mail Contract 237 (MC2016-192)
Negotiated Service Agreements

Docket No. CP2016-275

ORDER APPROVING AMENDMENT TO
PRIORITY MAIL NEGOTIATED SERVICE AGREEMENT

(Issued July 31, 2017)

I. INTRODUCTION

The Postal Service seeks to amend a Priority Mail negotiated service agreement.¹ For the reasons discussed below, the Commission approves the Amendment.

¹ Notice of United States Postal Service of Amendment to Priority Mail Contract 237, with Portions Filed Under Seal, July 20, 2017 (Notice). The amendment is an attachment to the Notice (Amendment).

In Order No. 3513, the Commission approved the Priority Mail Contract 237 negotiated service agreement (Existing Agreement).² On July 20, 2017, the Postal Service filed notice that it has agreed to the Amendment to the Existing Agreement. On July 21, 2017, the Commission issued a notice reopening this docket to consider the Amendment, appointing a Public Representative, and providing interested persons with an opportunity to comment.³

The Postal Service intends for the Amendment to become effective two business days after the date that the Commission completes its review of the Notice. Notice at 1. The Postal Service filed supporting financial documentation and a certified statement, as required by 39 C.F.R. § 3015.5. *Id.*

II. COMMENTS

Comments were filed by the Public Representative.⁴ No other person submitted comments. The Public Representative reviewed the financial model filed under seal and all other documentation related to the Existing Agreement. PR Comments at 2. Based on that review, she concludes that the Existing Agreement, as amended, should continue to generate sufficient revenue to cover costs and satisfy 39 U.S.C. § 3633(a). *Id.*

III. COMMISSION ANALYSIS

The Commission has reviewed the Notice, the accompanying materials filed under seal, and the comments filed by the Public Representative.

² See Docket Nos. MC2016-192 and CP2016-275, Order Adding Priority Mail Contract 237 to the Competitive Product List, September 14, 2016 (Order No. 3513). The contract was later amended. See Order No. 3747, Order Approving Amendment to a Priority Mail Negotiated Service Agreement, January 11, 2017.

³ See Docket No. CP2016-134, *et al.*, Notice Initiating Docket(s) for Recent Postal Service Negotiated Service Agreement Filings, July 21, 2017.

⁴ Public Representative Comments on Postal Service Notice of Amendment to Priority Mail Contract 237, July 28, 2017 (PR Comments).

Cost considerations. The Commission reviews competitive product prices to ensure that each product covers its attributable costs, does not cause market dominant products to subsidize competitive products, and contributes to the Postal Service's institutional costs. 39 U.S.C. § 3633(a); 39 C.F.R. §§ 3015.5 and 3015.7. As long as the revenue generated by the product exceeds its attributable costs, the product is unlikely to reduce the contribution of competitive products as a whole or to adversely affect the ability of competitive products as a whole to contribute an appropriate share of institutional costs. In other words, if a product covers its attributable costs, it is likely to comply with 39 U.S.C. § 3633(a).

The Amendment changes the terms of the Existing Agreement governing contract prices. See Notice, Attachment A at 1. It additionally changes terms related to packaging and the customer's volume commitment. See *id.*

Based on a review of the record, the Commission finds that the Existing Agreement, as amended, should cover its attributable costs. 39 U.S.C. § 3633(a)(2). For this reason, it finds that the Existing Agreement, as amended, should not result in competitive products as a whole being subsidized by market dominant products, in accordance with 39 U.S.C. § 3633(a)(1). Similarly, it finds the Existing Agreement, as amended is unlikely to prevent competitive products as a whole from contributing an appropriate share of institutional costs, consistent with 39 U.S.C. § 3633(a)(3). See *also* 39 C.F.R. § 3015.7(c). Accordingly, a preliminary review of the Amendment indicates it is consistent with section 3633(a). Because the contract prices in the Existing Agreement, as amended, are linked to the prices of general applicability for Priority Mail, the revenues from the Existing Agreement, as amended, should allow it to its cover costs for the duration of its term. See Notice, Attachment A at 1. The Commission will continue to review the cost coverage of the Existing Agreement, as amended in its Annual Compliance Determination to ensure that rates cover costs.

Other considerations. The Postal Service states that the Amendment shall become effective two business days after the date that the Commission completes its review. Notice at 1.

If the Existing Agreement, as amended, is terminated prior to the scheduled expiration date, the Postal Service shall promptly notify the Commission.

In conclusion, the Commission approves the Existing Agreement, as amended.

IV. ORDERING PARAGRAPHS

It is ordered:

1. The Commission approves the Priority Mail Contract 237 negotiated service agreement, as amended.
2. The Postal Service shall notify the Commission if the Existing Agreement, as amended, terminates prior to the scheduled expiration date.

By the Commission.

Stacy L. Ruble
Secretary